

Message Text

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22

ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 SSO-00

INRE-00 NSCE-00 USIE-00 /087 W
----- 007071

O R 161036Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 4562

TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

UNCLAS SECTION 01 OF 02 LONDON 12777

DEPARTMENT PASS FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: UK TRADE AND CURRENT ACCOUNT IN JULY, 1976.

SUMMARY: AFTER MANY "LEAKS" ABOUT ANTICIPATED DETERIORA-
TION OF THE CURRENT ACCOUNT IN JULY DUE TO "SPECIAL" FAC-
TORS, THE FIGURES RELEASED ON FRIDAY, AUGUST 13 SHOW THAT
THE DEFICIT WIDENED SHARPLY TO 394 MILLION POUNDS, A 160
MILLION POUND INCREASE FROM THE REVISED JUNE FIGURE OF
234 MILLION POUNDS. THE VISIBLE TRADE DEFICIT OF 524
MILLION POUNDS RESULTED FROM A 370 MILLION POUND DEFICIT
IN PETROLEUM AND RELATED PRODUCTS AND A 154 MILLION POUND
DEFICIT IN NON-OIL RELATED GOODS. PROVISIONAL ESTIMATES
SHOW EXPORTS OF 1,957 MILLION POUNDS (S.A., F.O.B.) AND
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IMPORTS OF 2,481 MILLION POUNDS (S.A., F.O.B.). TRADE IN

INVISIBLES RESULTED IN AN ESTIMATED SURPLUS OF 130 MILLION POUNDS.

1. VISIBLE TRADE. THE VISIBLE TRADE DEFICIT WIDENED BY 160 MILLION POUNDS BETWEEN JUNE AND JULY. THE NON-OIL RELATED DEFICIT AMOUNTED TO 154 MILLION POUNDS COMPARED WITH A REVISED 45 MILLION POUNDS IN JUNE WHILE THE DEFICIT IN PETROLEUM AND RELATED PRODUCTS WIDENED FROM 319 MILLION POUNDS IN JUNE TO 370 MILLION IN JULY. IN VOLUME TERMS, EXPORTS DECLINED BY 5.2 PERCENT WHILE IMPORTS ROSE BY 2.8 PERCENT. THE TERMS OF TRADE INDEX DETERIORATED 0.8 PERCENT AS THE IMPORT VALUE INDEX ROSE BY 1.6 PERCENT WHILE THE EXPORT VALUE INDEX INCREASED BY 0.8 PERCENT.

2. TRADE VOLUME AND TERMS OF TRADE (MONTHLY AVERAGE)

A. UNIT VALUES

(B/P BASIS; 1970 EQUALS 100, N.S.A.)

	EXPORTS	IMPORTS	TERMS OF TRADE
1974	162.7	218.0	74.6
1975	198.5	245.7	80.8
1975 1ST QU.	184.9	240.5	76.9
2ND QU.	193.4	241.1	80.2
3RD QU.	202.2	247.1	81.8
4TH QU.	210.1	260.4	80.7
1976 1ST QU.	219.0	270.0	81.1
2ND QU.	234.2	293.0	79.9
1976			
FEB.	218.9	269.5	81.2
MAR.	222.6	274.1	81.2
APR.	228.4	284.8	80.2
MAY	233.9	293.8	79.6
JUNE	240.4	300.5	80.0
JULY	242.5	305.3	79.4

PERCENTAGE CHANGE - LATEST 3-MONTH AVERAGE OVER PREVIOUS 3-MONTH AVERAGE

PLUS 7 PLUS 8-1/2 MINUS 1-1/2

B. VOLUME (MONTHLY AVERAGE)

(B/P BASIS; 1970 EQUALS 100, S.A.)

	EXPORTS	IMPORTS
1974	130.1	135.2

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1975	124.9	125.6
1975 FIRST QUARTER	128.9	125.4
SECOND QUARTER	122.6	122.2
THIRD QUARTER	120.0	127.4
FOURTH QUARTER	128.3	127.2
1976 FIRST QUARTER	132.1	123.8
SECOND QUARTER	137.3	134.8
1976		

FEBRUARY	128.4	125.4
MARCH	136.1	120.3
APRIL	136.5	131.1
MAY	138.3	136.9
JUNE	137.0	136.4
JULY	129.9	140.0

PERCENTAGE CHANGE - LATEST 3-MONTH AVERAGE OVER PRE-
VIOUS 3-MONTH AVERAGE

PLUS	L	PLUS	9-1/2
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INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 EB-07 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 SSO-00

INRE-00 NSCE-00 USIE-00 /087 W
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FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 4563

TREASURY DEPT WASHDC IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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3. IMPORTS AND EXPORTS

VISIBLE TRADE

(B/P BASIS; IN MILLIONS OF POUNDS, S.A.)

	EXPORTS (FOB)	IMPORTS (FOB)	VISIBLE BAL.
1974	15,899	21,119	MINUS 5,220
1975	18,772	21,972	MINUS 3,200
1975 1ST QU.	4,532	5,382	MINUS 850
2ND QU.	4,479	5,160	MINUS 681
3RD QU.	4,635	5,621	MINUS 986
4TH QU.	5,126	5,809	MINUS 683
1976 1ST QU.	5,441	5,911	MINUS 470
2ND QU.	5,995	6,972	MINUS 977

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FEBRUARY	1,751	2,004	MINUS 253
MARCH	1,913	1,933	MINUS 20
APRIL	1,945	2,213	MINUS 268
MAY	2,011	2,356	MINUS 345
JUNE	2,039	2,403	MINUS 264
JULY	1,957	2,481	MINUS 524

PERCENTAGE CHANGE - LATEST 3-MONTH AVERAGE OVER PREVIOUS 3-MONTH AVERAGE

PLUS	7	PLUS	18
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4. THE INVISIBLE TRADE AND CURRENT ACCOUNT. THE BALANCE ON SERVICES AND OTHER TRANSACTIONS IS ESTIMATED TO HAVE BEEN IN SURPLUS BY 130 MILLION POUNDS IN JULY. THUS THE VISIBLE TRADE DEFICIT OF 524 MILLION POUNDS COMBINED WITH THE ESTIMATED INVISIBLES SURPLUS YIELDED A DEFICIT IN CURRENT ACCOUNT OF 394 MILLION POUNDS.

CURRENT ACCOUNT

(MILLIONS OF POUNDS, S.A.)

1974	MINUS 3,567
1975	MINUS 1,700
1975 FIRST QUARTER	MINUS 446
SECOND QUARTER	MINUS 360
THIRD QUARTER	MINUS 571
FOURTH QUARTER	MINUS 303
1976 FIRST QUARTER	MINUS 60
SECOND QUARTER	MINUS 587
FEBRUARY	MINUS 117
MARCH	PLUS 117
APRIL	MINUS 138
MAY	MINUS 215
JUNE	MINUS 234
JULY	MINUS 394

5. COMMENT: THE DETERIORATION IN THE TRADE BALANCE HAD BEEN WIDELY ANTICIPATED FOLLOWING A WEEK OF "LEAKS" CONCERNING THE LARGE INCREASE IN NORTH SEA OIL RELATED IMPORTS. IMPORTS OF NORTH SEA RELATED EQUIPMENT TOTALLED

110 MILLION POUNDS IN JULY COMPARED TO 70 MILLION POUNDS IN JUNE. THIS 110 MILLION POUND "ONE TIME DELIVERY" COMBINED WITH A SHARP RISE OF ABOUT 40 MILLION POUNDS IN THE VALUE OF FOREIGN-BUILT SHIPS REGISTERED IN THE U.K. AC-
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COUNTS FOR NEARLY ALL OF THE 160 MILLION POUND DETERIORATION IN THE CURRENT ACCOUNT. IN ADDITION, THERE WAS AN UNSEASONALLY LARGE JUMP IN THE VALUE OF PETROLEUM IMPORTS. THIS 51 MILLION POUND INCREASE HAS BEEN OFFICIALLY DESCRIBED AS "ERRATIC."

OF POSSIBLY GREATER CONCERN THAN THE "SPECIAL" FACTORS CITED ABOVE WAS THE 5.2 PERCENT DECLINE IN EXPORT VOLUME. HOWEVER, THIS ALSO SHOULD HAVE BEEN ANTICIPATED GIVEN THE DECLINE OF INDUSTRIAL PRODUCTION (SEE LONDON 12561, PARA. 1) WHICH MEASURES DELIVERIES AS OPPOSED TO OUTPUT, WITH THE FALL-OFF BEING ATTRIBUTED TO THE LONG HEAT WAVE WHICH LEAD TO INCREASED ABSENTEEISM, REDUCED OVERTIME AND SHORTER WORK WEEKS IN SOME SECTORS. GIVEN SURVEY INDICATIONS OF A LARGE RISE IN EXPORT ORDERS AND IMPROVED COMPETITIVENESS OF U.K. GOODS, OFFICIALS REMAIN OPTIMISTIC AND VIEW THE JULY SETBACK AS ONLY TEMPORARY. WHILE IT IS TRUE THAT THE VALUE OF IMPORTS HAS BEEN INFLATED BY NORTH SEA RIGS AND FOREIGN-BUILT SHIPS, SOME OBSERVERS BELIEVE THAT THE DEVALUATION IMPACT ON IMPORT COSTS HAS YET TO BE EXPERIENCED AND THE TERMS OF TRADE WILL CONTINUE TO SHOW DETERIORATION FOR SEVERAL MONTHS.

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